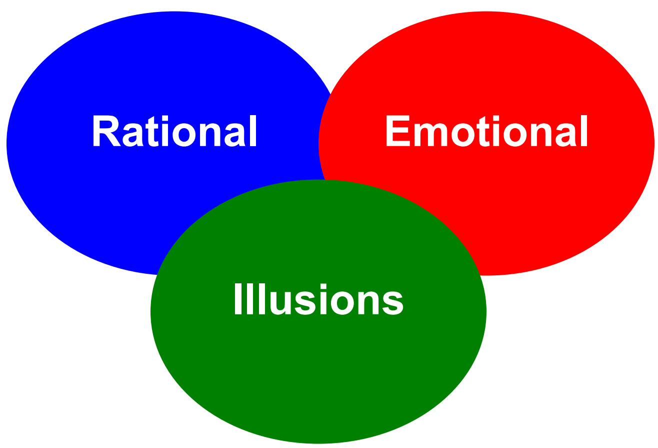
Change Buyer Behavior And Sell More Annuities



Jack Marrion

Change Buyer Behavior
And Sell More Annuities

Chapter 1 – Introduction

This book was written to help you close more annuity sales. It explains why consumers sometimes do not buy annuities and what you can do to help close the sale. It is designed to be practical instead of theoretical, so that when you are sitting down with a consumer, and run into trouble, hopefully something from the book will come to mind and help you close the sale.

The book is based on years of both practical and academic research. On the academic side I have taken the results of hundreds of studies showing how consumers actually make decisions. Many of these results have been implemented in other industries and have resulted in increased sales, but they have not been used in the annuity or financial world. All I have done is taken what is working elsewhere and applied it to the annuity sale. But this book is not a schoolbook. It is supposed to help you sell more in the real world by covering what is missing in almost all annuity training and sales literature.

How Consumers Really Make Decisions

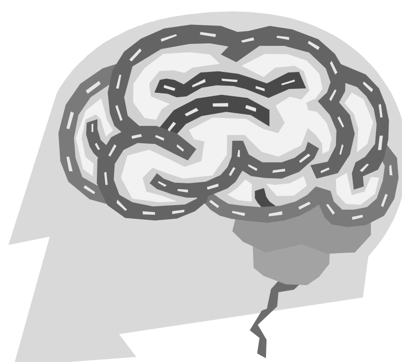
If I were to ask you why consumers buy fixed annuities you might say it is because of the safety from market risk or maybe because of the guarantees or perhaps due to the tax-deferral element. Indeed, there are a number of rational reasons to purchase a fixed annuity, and these are almost never the real reason behind the purchase.

Some Rational Reasons To Buy Fixed Annuities

- Higher Potential Yields
- No Market-Risk of Loss
- Tax-Deferred Interest
- Lifetime Income Options
- Minimum Guaranteed Return
- Avoid Probate

Wall Street and its economists all seem to treat consumers as if they are computers. They assume that all of us make rational financial decisions to maximize the economic utility of any situation. They give us oceans of charts, tidal waves of slides and fathoms of math columns all designed to prove they have the most rational answer. But consumers do not make rational decisions. They make normal decisions. Consumer decisions contain some rational pieces, but they also are influenced by the emotions at the time of the decision and memories of the past that are considered as facts but may be illusions. These rational pieces, behavioral elements and illusions combine in the decision-making process and the interaction of these three areas results in a decision.

3 Elements Of A Decision



Rational

Emotional

Illusions

The standard annuity training courses and books concentrate almost solely on the rational reasons why people buy annuities and ignore the other parts. The result is we often talk on a purely rational level, while the prospect is moving between different levels, and the result is a misconnection – and often no sale. This book will help you connect with prospects on all levels and the better you can connect with the consumer the more likely you are to close the sale.

What This Book Is

The book is broadly divided into three parts. The first part lists the rational reasons for buying fixed annuities and how bounded rationality can keep even the most rational consumer from making the best decision for their situation. I will talk about how to expand a prospect's mind to help realize why a fixed annuity makes sense.

The second part deals with beliefs that consumers think are factual when they are often illusions. The book will give you arguments and ammunition to tear down the illusionary walls that sometimes get in the way of the sale.

The third part tells you how to react when the consumer is emotionally objecting to the annuity purchase. It gives you an understanding of what is going on in the consumer's mind, why the consumer may be thinking that way, and steps you can take to change the consumer's mind.

This is not a textbook and you do not need a degree in psychology to understand it, just as you do not need a degree in engineering to drive a car. A lot of this book is simply taking results from other places and translating them into the annuity world. If someone wants to dig deeper I have included any academic sources for many of the topics discussed.

What This Book Is Not

This is not An Introduction to Annuities. When I mention minimum guarantees or surrender charges or tax-deferral or participation rates I am assuming the reader has at least a basic understanding of what it all means. Although the general ideas mentioned in this book may be used to sell anything the focus is on selling fixed annuities.

This book is not Sales Training 101. The goal of the book is to help you close more annuity sales when you are sitting across from the consumer. I say nothing about how to prospect, I do not create presentation scripts, and I do not have sections on "overcoming objections" or "closing techniques." What I have found is when you connect with the consumer – if you do it right – you do not get objections that are really excuses and there is no "close" because the entire process is the consumer doing their own close.

I would love to be able to say "here is the sales script to guarantee a sale" or "when the consumer raises concern #24 you should respond with answer #31" but every sales situation is a little different and every consumer has a unique background that influences their decisions, so you need to be able to adapt. However, there are common rational boundaries, shared illusions, and typical human behaviors that are almost universal. If you understand the basics that are covered in this book it will make it easier to connect with the consumer and adapt.

This is not to say that this book will allow you to close every consumer you meet. There are situations where an annuity is not the correct solution for the consumer's needs and this book will not help you sell someone that has no need for an annuity. What this book will do is allow you to quickly tell when the consumer is not an annuity buyer so you may move on to a better prospect.

Whether There Is A Sale Comes Down To This

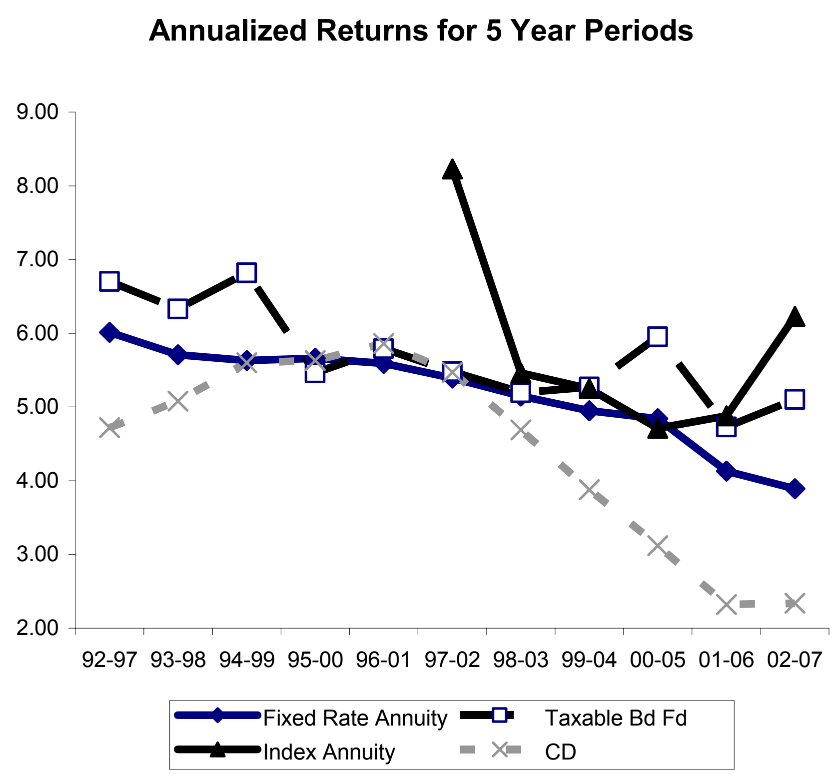
Whether a consumer is buying an ice cream cone or an annuity, or not buying an ice cream cone or an annuity, the ultimate reason for all decisions is either to feel good or avoid feeling bad. This book will help you make consumers avoid feeling bad by buying an annuity.

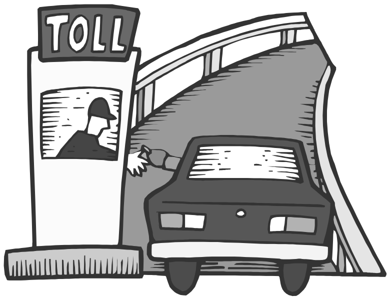
Who Are "You"?

This book is written for folks that sell annuities to consumers. You are called annuity producers, agents, financial service professionals, and several other names. I call you "representatives" because in this changing financial picture you are truly becoming the consumer's representative in understanding the annuity world.

This graph compares fixed rate annuity, fixed index annuity, taxable bond fund, and certificate of deposit returns for five year periods beginning in 1992 and ending in 2007. My conclusions are that both fixed rate and fixed index annuities have been competitive with U.S. taxable bond mutual funds and CDs.

If you look at the periods from 1997 through 2007 the 5-year annualized returns for the index annuities averaged 5.79%, the average taxable bond fund return was 5.29%, the average fixed rate annualized return was 4.73%, and the CD return was 3.64%. For the periods from 1992 through 2007 the average taxable bond fund return was 5.71%, the average fixed rate annuity return was 5.18%, and the average CD return was 4.43%.

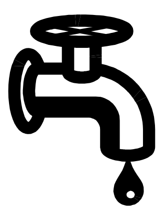




Everyone living amongst toll roads knows what a pain tollbooths are. It's not only the cost of the toll; it is the inconvenience of pulling into a line of cars, fishing for change, and interrupting your trip. Toll roads using an Easy-Pass type toll system mean you do not have to stop and fiddle for change so your trip is not interrupted. You will still be charged tolls, but you will settle up down the road and you often get a discount on the tolls that the cash people pay.

Tax-deferral is like having an IRS Easy-Pass. You do not have to fiddle with reporting interest each year and your financial trip is not interrupted by demands for cash. Sure, you will need to settle accounts when you decide to end the tax-deferral, but it will be you deciding when it is convenient to pay the taxes, and due to the extra interest earned on the money that would have gone to taxes each year you may very well wind up paying less than the other guy that stopped every April at the IRS tollbooth.

Avoiding the tollbooth is one picture that explains tax-deferral and there are many more. I used to use a picture of two buckets, one with a hole in it and another with a spigot – the tag line was that tax-deferral avoids having the IRS punch a hole in your financial bucket to drain off cash, but instead gives you a faucet so that you control when the IRS gets paid.



The point is we remember pictures better than we remember graphs and math tables, and by making our rational point with a picture the consumer is more likely to remember the point. It is

Chapter 3 – Safety

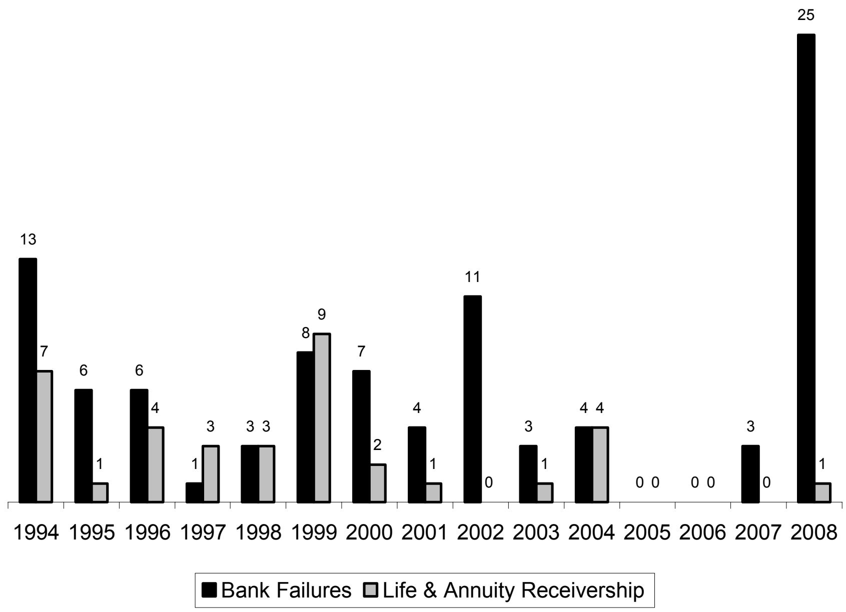
There are different levels of risk (or different levels of safety if you wish to look at it from the other direction) associated with fixed annuities. There is inflation risk where decreasing purchasing power makes today's money worth less tomorrow. There is tax risk where you pay taxes you did not need to pay. Longevity risk is outliving your money. And there is currency risk, political risk, legal risk, benefit shortfall risk, and if given enough time we could probably think of many more (annuity envy risk?). However, I find when most people think of risk they think about the risk of losing their principal. Safety is such a strong issue in an annuity sale that I have devoted an entire chapter to it. The early part of the chapter is supposed to give the representative a better understanding of the safety issues in an annuity and how it all affects the interest paid to the annuityowner. The last part contains data points and third party references you can give to a consumer to help them feel more comfortable about buying an annuity.

Fixed Annuity Risk

Investments have market risk meaning if the market price goes down for the investment you are holding you could lose money if you sold. The market risk of stocks, bonds, commodities, collectibles, real estate, gold, oil and even variable annuities is the value of the asset could go down – perhaps to zero – if the market was unfavorable. Fixed annuities do not expose principal and credited interest to market risk, although you could argue that potential interest is subject to a type of market risk.

Three fixed annuity risks are return risk, liquidity risk and capital risk

Credit or capital risk is another matter. What happens if the insurance company backing the fixed annuity cannot pay? What this chapter is about are the three risks I get the most questions about:



* all CD data is from Federal Reserve Board. Other sources include Federal Deposit Insurance Corp., National Organization of Life and Health Guaranty Associations, National Association of Insurance Commissioners, California, Florida and Illinois Departments of Insurance.

<u>So, Can I Lose Money In A Bank or Fixed Annuity?</u>

Absolutely, if you do not follow the rules you agreed to going in you could lose money. Getting out of a certificate of deposit or fixed annuity early could cause penalties that eat into principal, but if you leave early and incur a loss that was a result of your decision. However, the real question is what is the likelihood of losing your money because the issuer goes under? Even though there have been bank and annuity customers that have lost money due to company failure the reality is this:

Will a consumer lose money in their fixed annuity due to an insurer failure? Almost certainly not.

Chapter 4 – Financial Myths & Illusions

Consumers make normal decisions. Normal decisions contain rational pieces, behavioral elements and illusions that all combine in the decision-making process and result in the final decision. This chapter deals with beliefs that consumers think are factual when they are often illusions or financial myths.

These myths and illusions often get in the way of a sale and by showing the consumer that their belief is an illusion a possible objection is overcome. Financial illusions do not always work against the sale, sometimes they can work in favor of the annuity

General Illusions

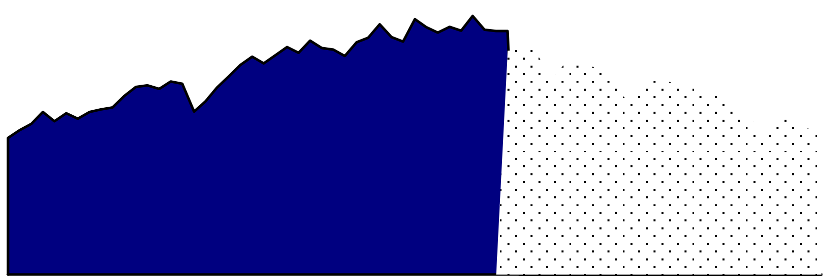
Projection Bias

We use it in predicting tomorrow's weather. We use it in sports to predict winning or losing streaks. And we certainly use it with money. It is called *projection bias* and what it means is taking what happened yesterday and today and thinking it is going to happen tomorrow. The problem is that is often wrong.

As an example, the blue part of this chart shows actual steadily rising index movement for a three year period. If you were to ask people where the index would go for the next three years most of them would continue seeing an upward slope into the future.

However, this period was from 1996 to 1999 and we all know what really happened to the stock market over the next three years.

S&P 500 March 96 - March 02



Projection bias causes us to take what we think we are seeing from existing data and then extrapolating the known data into an unknown tomorrow. Although estimating future values from existing data may work in algebra class it doe not work well in the financial world because the future value of the stock market and interest rates are not mathematical certainties, but instead depend on how real people react to the changing financial world.

<u>What does projection bias mean for the representative?</u>

If the consumer's projection bias creates a crystal ball view of the future that supports the representative, then nothing needs to be said – the consumer may be making the right choice for the wrong reason but they are making the right choice. However, if the consumer's projection bias works against the representative then the consumer's view of the future path needs to change.

Wall Street Illusions

Wall Street's Retirement Income Plan

An oft proposed Wall Street retirement income plan (Wall Street R.I.P) uses two rules of thumb. The first rule is an age-based asset allocation formula that says *100 minus your age* should equal the percentage of stocks in your portfolio. So, a 60 year old would have 40% stocks and 60% bonds/cash and a 30 year old would have 70% stocks and 30% bonds/cash. The idea behind this is that stocks are more volatile than bonds and have greater risk of loss over the short term; therefore as you get older you should shift more money into less volatile bonds. The second rule of thumb is using a *safe withdrawal rate*. In the '80s and '90s it was commonly said that one could withdraw 5% from their portfolio forever, increased for inflation, and never run out of money. These two rules were used by many retirement planners to advise folks how to allocate and receive their retirement funds.

Using 100-Age your retirement money ran out 1 in 4 times

A few years ago a trio of planners tested these rules. They took actual past market performance and then mixed up the yearly returns to randomly create thousands of different possible financial patterns to show how different mixes of stocks, bonds, and cash would perform if the past parameters repeated. Instead of using a 5% safe withdrawal rate they were even more conservative and used 4.5%, adjusted for inflation.

What they found was if you put 40% into stocks and the rest into bonds and stocks you ran out of money 24% of the time after 30 years and 41% of the time after 35 years. What that means is if a 60 year old followed the 100 - age = % of stocks rule of thumb they would have run out of money by age 90 a quarter of the time and by age 95 two fifths of the time. Even after using a more conservative 4.5% safe withdrawal rate there was a one in four chance the retiree patient would die on the table.

to protect us to live another day. The problem is humans have never fully adapted to the modern world and so we react to these impulses born in a distant past and try to use them in the financial world. However, there are other financial illusions that are created specifically to manipulate consumers.

A Rose By Any Other Name Still Smells

Want a surefire method to increase investment sales? Change your product's name to reflect today's hot financial trend and advertise heavily. Are hedge funds creating sales? Great, change the name of your investment to "The Investment Hedge." Is gold getting a lot of airplay? Fine, call your product the "Gold Fund."

What if your investment does not act like a hedge fund or does not own any gold? It does not matter; sales will increase anyway, even if your yields are below average, because folks will buy as long as the name is right.

63% of Mutual Fund name changes were done simply to mislead investors

A trio of academics examined whether mutual funds sometimes change their names to take advantage of trendy investment styles, but do not change the way they invest to match their new name. Their finding was that 63% of the 296 mutual fund name changes that occurred between 1994 and 2001were purely cosmetic. However, even though the name change was bogus, inflows to these "cosmetic" funds increased just like funds that had actually changed their way of investing (heavy advertising of the trendy new names brought in even more money for both real and cosmetic funds).

The authors state "The implication for fund managers desiring to increase flows is unambiguous: Make a hot style name change, do not worry about your fund's performance...and advertise your fund."

Chapter 5 – Consumer Behavior

You have all been there. You perfectly explained the rational reasons why the annuity makes sense, you have corrected the consumer on a couple of illusions they held on how annuities work and they seem to accept your answers. The consumer has the money and the need for your annuity solution, and yet they still do not buy.

What this chapter is about are the behavioral reasons that influence decisions and what the representative can do about them. What it does is describe the behavior, show an example or two or three of the behavior screwing up the sale, and then offer ways to counter the behavior, if needed. These are behaviors that often result in no sale, but when the representative knows about them and sees them in use they can remember solutions from this chapter to counter the bad decision and influence the good decision, which is to buy the annuity.

In naming the behaviors I have used the most commonly recognized name. A behavior may have more than one name because different researchers worked on identifying the same behavior in different studies and developed separate names for the same thing. As a practical matter there is no reason to know the academic names at all. Instead of "regret aversion" I could have made up some name because the importance is not in knowing the name of the psychological action that is hampering the sale, it is figuring out how to work with or around it to close the sale. I left the academic name in, and sometimes list relevant articles, just in case the reader wants to do more research on a certain behavior. But this chapter is not about research and it is not about academics. This chapter is about understanding the behaviors that can get in the way of the sale so that you remove them and make the sale.

It also means we try to avoid finding out how well the alternatives we did not choose perform because they would indicate we made a bad decision. This is known as *Confirmation Bias* and means people search for information that supports their current beliefs and decisions, while neglecting information that might say they are wrong.

A consumer may select the certificate of deposit over the annuity simply because they have owned CDs in the past and the annuity is a new thing. The consumer may even believe the annuity could offer a higher yield, but the consumer minimizes potential regret by telling themselves that even if the annuity beats the CD they will never know and ignorance is bliss.

What does this mean for a representative? Take away their bliss. Research indicates that if the consumer is told they will know the outcome of the alternative not chosen that it will cause them to rethink their decision. What this means is if the consumer is leaning towards the CD and the representative basically says, "If you choose the CD I'll call you in a year and let you know how you would have done in the annuity" that the consumer will be less likely to simply repeat the past decision of buying the CD and will give the index annuity a fair chance.

Gambler's Fallacy & Hot Hands

Both the Gambler's Fallacy and Hot Hands take a small set of results and attempt to use it to predict near-term outcomes, but in opposite directions. Say that you flipped a (fair) coin 5 times and it always came up heads. The Gambler's Fallacy says you would believe that on the next flip tails were "due" so you would say the odds of heads on the next flip are less than 50/50. Hot Hands followers believe in streaks. If the coin turned up heads 5 times in a row a Hot Hands player would say the odds of heads on the next flip are better than 50/50 because a streak is happening. Both are wrong. The odds of every flip on a two-faced (fair) coin are always

50/50, and if you flipped the coin enough times it would balance out.

Law Of Small Numbers: What Can Be Done

The reality is there is no law of small numbers. Basing a decision on little data often leads to bad decisions, but that does not stop consumers from doing so.

The representative needs to know the mindset the consumer has before reacting. Does two years of falling interest rates mean to the consumer that rates are going to rise – so the consumer will want an annuity that declares a new rate each year, or will the consumer see the previous two years as predicting more falling rates – and they would be more receptive to a multi-year annuity that locks in a rate for the long term.

It has been my experience that most annuity buyers follow a Hot Hands logic where what happened yesterday will happen tomorrow, and the representative should probably base the presentation on what yesterday indicates. But there is a surefire way to find out which way the consumer is thinking. Ask them!

Mental Accounting

This means we subjectively treat some economic outcomes differently from others without a rational basis for doing so. It explains why we are more likely to sell our good investments and keep the bad ones, cause us not to diversify, and often involves taking the advice of the body parts without brain cells (as in "my heart/gut tells me I should..."). By understanding how mental accounting works a representative can take advantage of it.

<u>Mental Accounting 1 – Goal Pyramid</u>

If you look at a typical financial pyramid offered by Wall Street it shows a bottom level of cash or bonds, a middle level of growth & income mutual funds, and a top of riskier growth investments. Consumers also create pyramids, but a personal pyramid based on goals and fears, not asset classes, and the levels are produced by

Not Understanding Time: What Can Be Done
Say that a seven-year multi-year annuity has a yield of 5% and the eight year one has a yield of 4.5%. The seven-year annuity has the higher return. But what if the annuities were presented as $10,000 placed in the seven-year annuity grows to $14,071 but placed in the eight-year annuity it grows to $14,221. Now which is bigger?

Of course, the seven-year annuity has the higher return, but mental accounting tries to make us process numbers by relative size and ignore the effect of time.

Here is another one. If you place $100,000 in an annuity at age 50 that guarantees 8% annual growth of the income withdrawal benefit, the guaranteed life income at age 65 is $15,000. What is the actual return? We will not know until the life ends. However, mental accounting is telling us this annuity is paying $15,000 on $100,000 or a 15% annual return.

The other time perception problem is long-term investments are evaluated based on their short-term returns. If you have a 30 year horizon does it matter how the investments did last quarter? No, but whether our time horizon is 1 year or 30 years we tend to manage our money for the next quarter, and this causes losses to have undue influence on the planning.

Not Understanding Time: What Can Be Done
The fact that short-term losses cause consumers to be too risk averse over the long-term usually works to the advantage of annuities. Fixed annuities cannot lose credited interest and consumers are less likely to overreact to short-term conditions.

Mental Accounting 3 – Sunk Cost

If you have ever held onto a car too long you have probably experienced the bias of sunk cost. Last month you spent $800 fixing the transmission and now it looks like it will need a valve

Chapter 6 – Framing

Framing is presenting a picture, concept, or fact in a certain way. All of the topics mentioned in this book are examples of framing because framing is a conscious or unconscious way of offering information. We use framing to attempt to explain what something is and how it works relative to something else. Framing is not bad or good, it just is. The representative needs to use framing to their advantage, and be aware when it is working against them.

I have found one of the big reasons why an annuity sale does not happen is because the consumer is anchored in their own financial reality and not in the representative's financial reality. Consumers' heads are rarely anchored in the representative's financial pond, but are in their own separate pond. If the consumer remains in their pond while the representative stays in theirs, the representative does not connect with the consumer and a sale does not happen. What the representative needs to do is move the consumer's anchor into the representative's pond, and this is done by framing.

Framing is used to make the consumer's reality the same as the representative's reality. This chapter shows situations where the consumer's financial reality may interfere with the annuity sale, and tells how to frame the reality so a sale will result.

Setting Up The Sale

Mimicking & Mirroring

Primates tend to mimic the behavior of the primates sitting across from them (monkey see, monkey do). If the other person is smiling, we tend to smile. If the other person is making hand gestures, we will tend to make similar gestures. If the mimicry is positive (returning a smile and not returning a glare) the person being mimicked feels closer to the other person and develops

The implications are powerful; the problem is I do not have a strong sense of how you translate this into setting the annuity sale. Might having copies of *Worth* or *Fortune* in your waiting area cause a consumer to select more "high value" riders in the annuity offered? Could serving them coffee in fine china cups increase the average sale? I do not have a clue.

Setting The Sale

- Mimic the consumer by using similar body language
- Repeat what they say, do not paraphrase
- Be aware of possible superstitions and act accordingly
- Consumers like to imitate behavior that makes them feel part of the group so show them the group likes the annuity

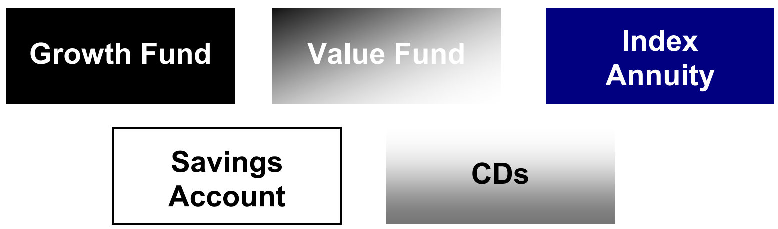
Initial Framing

Beat The Bank Not The Market

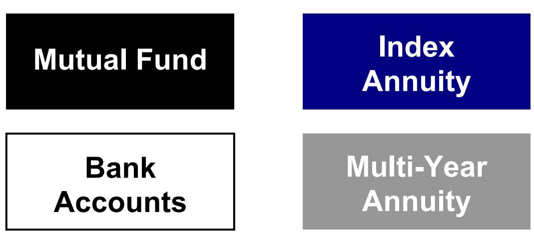
Whether you call it framing or setting the stage, the lead up to the product presentation is crucial. For example, you could open with "this index annuity has a 7% ceiling on the interest you can earn next year" or you could say "your bank has a 1-year CD rate of 4%; this index annuity has a 7% ceiling." The reason for the later phrasing is to move the client to your financial reality.

The representative needs to build realistic risk and return expectations for the annuity by framing the annuity with positive benchmarks. A good benchmark to use is the bank. The positive aspects of the bank are they provide interest paying savings instruments without stock market risk of loss – the same story as fixed annuities. The good news is banks often pay lower yields than fixed annuities. The point of the framing is to capture the safety message of the bank along with the annuity potential for higher interest. I devote an entire chapter to bank and annuity safety, so for now let us focus on the realistic expectation framing.

A study was done a few years ago that compared allocation choices in two pension plans. One plan offered a selection of 5 stock funds and 1 bond fund, the other offered 1 stock fund and 4 bond funds. At the time the average consumer had 57% of their pension money allocated to stocks. However, consumers in the plan with 5 stock choices had 75% of their money in stocks; consumers in the plan with 4 bond choices had only 34% in stocks and 66% in bonds. In both cases consumers had loaded up a specific asset simply because it had more slots to choose from.



What does this means for annuity representatives? If a consumer has a savings account, a CD, a growth mutual fund, a value mutual fund and an annuity is proposed the consumer may subconsciously think in terms of placing 1/5 of their assets in the annuity because they see 5 choices. But what if the consumer is shown a chart divided into fourths that shows “bank”, “mutual funds”, “index annuity” and “multi-year annuity”? The 1/n strategy would result suggest half of the assets being placed in annuities.



Will relabeling assets cause half of the money to be placed in annuities? I doubt it, but research indicates the annuity slice of the allocation pie should increase.

favorable decision. The consumer needs information that is relevant to them. This definitely does not mean the consumer needs to know everything the representative knows, but only those facts that are important for the consumer. By providing the needed information in a way that shows the consumer how the annuity will help achieve their goals the representative preempts future objections.

Preempting the objection – meaning to address the objection before it arises – may be the best solution.

Preempting the objection is showing the consumer why the annuity fits their goals in spite of the negative aspects of buying the annuity. It is creating a favorable decision-making framework that raises and answers the objections during, or even before, the presentation. It is the exact opposite of the representative waiting until "the close" to find out what information is missing, which is often too late because the consumer has already decided not to buy based on the information they have.

The way in which the relevant information is presented, or framed, usually determines the decision outcome. The framing of the information helps the consumer determine whether the annuity will help them and should be purchased. The rest of this chapter has ideas to help representatives ensure that objections never come up by providing the answer before the question is raised.

Safety (Liquidity)

When I ask representatives why consumers buy annuities the overwhelming response is because fixed annuities are safe. But what is safety? A representative often translates the concept of annuity safety into a lack of stock market risk, but this is not the typical consumer's definition of safety. From my talks with consumers I believe their definition of safety is "can I get my money back?"

money in either – the consumer is less likely to challenge the safety of the fixed annuity. The chapter on safety goes into greater detail about the safety record of both bank products and fixed annuities.

The consumer is asking – ***can I get my money back (what are the penalties)?***

In our minds the behavioral impact of a 2% penalty and a 20% penalty are very similar. The deterrent effect of losing 2% interest on a 4% CD or 20% of the fixed annuity value appears to be almost the same in determining whether the consumer keeps the money in place (the higher penalty does sometimes deter the representative from replacement however). I believe consumers are relatively indifferent when it comes to the <u>size</u> of the withdrawal penalties. However, the <u>length</u> of the penalty is something else.

The consumer usually needs to believe the longer penalty period is justified by either greater return potential or that the longer penalty period is normal. In a multiple year guaranteed rate annuity the greater return potential can often be expressed as earning a higher rate as the penalty years increase – an 8-year guaranteed rate pays a higher yield than a 6-year one. Or, it can be expressed as protecting a rate as the penalty years increase – an 8-year guaranteed rate pays a lower yield than a 6-year one because the insurer is sticking their neck out for two more years to protect the yield.

Objection Preemption: “The reason for the surrender period is to get you the higher yield.”

This same logic can be extended to index annuities – the 8-year penalty product offers greater index participation than the 6-year product. However, if the representative is presenting annuities with penalty periods of 12 or 15 years a more effective story may be that the reason this annuity has a 15-year penalty period is because this annuity is supposed to have a 15-year penalty.

But if the representative can show the consumer how their return is improved by tax-deferral it increases the likelihood of a sale. This means digging into the consumer's tax situation.

If the representative can show the consumer how moving $100,000 out of CDs into a deferred annuity means they will not receive a Form 1099 on the $4,000 of compounding interest saving them $1,000 in income taxes next year the case for the annuity is strengthened. Although someday someone will need to pay taxes on the deferred interest a dollar in the hand today is usually valued more than a dollar received tomorrow. Of course, the representative would tell the consumer to get tax advice from their personal advisor.

Objection Preemption: Show the money.

Promises are one thing, delivery is another. While it is wonderful to talk about potential returns it is more effective to show results. Copies of statements showing how the annuity being discussed has performed are powerful tools and add both credibility and a reason to buy. If the annuity offered is new an annuity interest crediting history from the carrier will show how the insurer has treated other customers. The consumer should also be reminded that past performance is no guarantee or indication of future results.

Zero Interest

A reality of index annuities is if the index does not cooperate the annuity could earn zero index-linked interest for the period. Although "zero is your hero" is a cute phrase the reality is the consumer needs to be convinced that a probable zero is not a bad thing

Objection Preemption: Three ways to show why zero is a good choice.